

Maine Use Tax Compliance Program

What is the Maine Use Tax Compliance Program?

- The Maine Use Tax Compliance Program is a limited duration program during which individuals and businesses will have the ability to disclose and pay their past use tax responsibilities without interest charges or penalties.
- For the rest of this year, MRS will be increasing the public's awareness of use tax and promoting this program as a time to "come clean" with their use tax responsibilities.

When is the program?

- The program period is from July 1, 2006 through December 31, 2006.

What periods does the program cover?

- The program covers taxable purchases from January 1, 2000 through December 31, 2005. This is referred to as the "lookback period".
- However, the taxpayer is only liable for the use tax incurred during the 3 calendar years of the lookback period that have the highest use tax liability as reported on the program's return.

Can I report a large purchase I made two years ago under this program?

- In order to participate in this program, a person must report all of their previously unreported taxable purchases during the lookback period.
- A person cannot use this program to report only one purchase made without disclosing all taxable purchases during the entire lookback period.
- Any material misrepresentations or material omissions would disqualify the person from this program.

Will this program allow me to pay off a previously reported or assessed use tax debt?

- No. The program is limited to unreported and unassessed use tax liabilities only.

Does payment need to be made with the return?

- Both filing and payment, or an agreed upon payment plan, need to occur no later than December 31, 2006.

Are payment plans allowed?

- Yes, by special approval of the State Tax Assessor and only until December 31, 2007.
- Interest does accrue on these payments.

Where can I obtain returns and information about the program?

- On the web. A link will be available on www.maine.gov and www.maine.gov/revenue.
- By calling (207) 624-9595
- By written request to Maine Revenue Services, Compliance Division, 24 State House Station, Augusta, ME 04333
- Special mailings will also be made.

What is use tax?

- Use Tax is a substitute for sales tax.
- All states that have a sales tax also impose a use tax.
- Use taxes are imposed to minimize unfair competition between in-state and out-of-state sellers.
- Use tax has been in Maine law since 1951; the same as sales tax.
- The use tax rate is the same as the sales tax rate.

If the use tax has been around since 1951, why is lack of compliance now such a problem?

- Our society and the global marketplace have changed over the past 50 years.
- Sales by “bricks and mortar” companies, those with store fronts in Maine, have been increasingly impacted over the years, beginning with catalog sales.
- With the increased mobility of our population and the introduction of the internet, that effect has grown larger.

How much money has Maine been losing due to lack of compliance with the use tax?

- A federal study estimates that Maine is losing between \$30 million and \$100 million a year in sales/use tax from untaxed remote (internet and catalog) sales.

Does Maine receive a lot of use tax through the income tax return?

- The use tax line has been on the income tax return for over 10 years
- Approximately 10% of filers report a tax amount on this line
- Revenue is approximately \$1.6 million annually

How much use tax revenue does Maine receive annually?

- Based on fiscal year ending June 30, 2005, use tax revenue was \$78.6 million.
- Most of the use tax revenue is reported by businesses.

When does use tax apply?

- Use tax is based on the purchase price and applies when sales tax has not been charged.
- Use tax applies if the goods are brought to Maine for use here.
- A Maine resident or business does not escape sales tax by purchasing goods out-of-state and bringing them to Maine
- A Maine resident or business does not escape sales tax by purchasing goods through a catalog, over the phone or over the internet and having the goods delivered to a Maine address.
- Purchases made over the internet and out-of-state are the most common type of transactions subject to a use tax.
- Use tax also applies when a business withdraws goods from inventory for its own use. Use tax, in this case, is based on the cost of the item when it was purchased.
- Common taxable items for businesses are office supplies and equipment, computer hardware, software and supplies, janitorial supplies, fax machines and supplies, photocopiers and supplies and books.
- Common taxable purchases for individuals are computers, books, downloaded music & cd's, clothing, and many auction purchases, including on-line auctions such as Ebay.

Are there any exemptions from use tax?

- The same exemptions that apply to sales tax apply to use tax.
- Common exempt purchases are food products, magazines and newspapers published at least quarterly and items purchased for resale.

How does a business report use tax?

- Businesses that are registered to collect and report sales tax report their use tax on the sales tax return.
- Businesses that are not required to collect and report sales tax can register to receive a use tax only return.

How does an individual report use tax?

For purchases of single items that cost \$5,000 or less, individuals have 2 options to report use tax:

- A.** You may choose to report any use tax due on your 1040 ME, Maine personal income tax return, at the end of the tax year. There is a line on the 1040 ME form on which you can report the use tax due. If you choose this method of reporting and you do not know the exact amount of your taxable purchases you have the option of using a formula that is outlined in the 1040 ME instruction booklet. This formula may only be used for purchases of individual items costing less than \$1,000.
- B.** The second option is to file an Individual Use Tax return directly with Maine Revenue Services by the 15th of the month following the month of your purchase.

For purchases of single items that cost more than \$5,000, individuals are required by law to file an Individual Use Tax return directly with Maine Revenue Services by the 15th of the month following the month of your purchase.

Where can I get an Individual Use Tax return?

Individual Use Tax returns are available on our website at:
www.maine.gov/revenue/salesuse/IUSEintrnt or can be obtained at most municipal offices.

What if I paid tax to another state?

- If you made purchases in a state that charges sales tax and your purchase was taxed, you may not owe any use tax in Maine.
- If the amount of tax was equal to or more than Maine's rate, no tax is due.
- If you paid less than Maine's rate you owe the difference. For instance if another state's rate is 4% and Maine's rate is 5%, a Maine use tax of 1% is due.

Why do some out-of-state companies charge Maine tax?

- Some out-of-state companies charge the Maine sales tax because they have a presence in Maine that requires them to register, collect and remit sales tax.
- Others voluntarily register for the convenience of their customers.
- Use tax does not apply if your supplier charges you a Maine sales tax.

Is there use tax when I purchase used goods from an individual?

- Sales by a person who is not in the business of selling that kind of goods (“casual sales”) are not generally taxable.
- Certain casual sales are specifically taxed by law. The most common are camper trailers, cars, trucks, snowmobiles, ATV's, boats and aircraft. When you buy one of these items, you will be required to pay use tax or show proof that tax was paid when you register the vehicle.

Is there use tax when I purchase goods over the internet?

- Yes. Purchases over the internet from a retail seller for delivery in Maine are subject to Maine’s tax.
- If the retail seller is not registered with Maine and does not charge Maine sales tax, then you would be liable for the use tax.

Isn’t there a federal moratorium on taxing internet sales?

- No. The Internet Tax Freedom Act prevents states from imposing a sales tax on internet access charges; the fee a person would pay to an internet service provider (ISP) such as AOL for the ability to gain access to the internet.
- The Act has no effect on sales or use tax due on purchases made over the internet.

Does MRS identify use tax delinquencies?

- MRS does discover use tax liabilities from a variety of sources, such as customs documents, information received from other states and information received from routine audits.